



CITY OF DURHAM
City Manager's Office
101 CITY HALL PLAZA, 2ND FLOOR
DURHAM, NC 27701
919.560.4222 | F 919.560.4949

www.durhamnc.gov

June 16, 2008

To the Mayor and Members of the Durham City Council:

I am pleased to present the Budget for FY 2008-09. As always, we used information gathered from our citizens, employees and the City Council as a guide to developing the budget. The annual City Council retreats held in January and February gave City Council members an opportunity to express their priorities for the upcoming fiscal year. We also conducted 7 Coffees with Council to engage our citizens in the budget process and 4 employee budget forums to give our employees an opportunity to discuss their needs. In addition, we attended various other meetings to gather input from our citizens and community leaders and the Citizen Capital Improvement Panel assisted in the prioritization of capital projects. Throughout the process, it has been our goal to be transparent in sharing information to help citizens make informed decisions and provide input. Citizens and Council Members have clearly directed the City to continue to focus on three broad goals for FY2008-09:

- Reduce crime and address its root causes
- Maintain core service levels
- Implement the Capital Improvement Program (CIP)

This budget builds upon the successes of the last few years and keeps us on the course we have charted to achieve our goals. This year in particular was challenging due to the economic forecast of our state and country. Although, we are not as severely impacted by the current economic downturn, we are projecting our revenues conservatively and consequently expect a decrease in several major revenue categories including sales tax, business license fees, interest earnings and investment income.

In 2003, the North Carolina General Assembly passed SB511, "Publish a Revenue-Neutral Tax Rate," requiring every local government to include in its budget a statement of the revenue-neutral property tax rate in years when there is a general reappraisal of real property [G.S. 159-11(e)]. The revenue-neutral tax rate is the rate for the fiscal year that would produce revenue equal to the revenue that would have been produced with the current tax rate if no revaluation had occurred. The revenue-neutral rate for the City of Durham is 50.05 cents per \$100 of assessed valuation. The proposed budget includes a property tax rate of 54 cents per \$100 assessed valuation. This rate is 7.8 cents (per \$100) lower than the FY 2007-08 tax rate. Of this rate, 53.85 cents is dedicated to the General Fund to provide core services to citizens and adequately support debt service

requirements resulting from the 2005 and 2007 Bond Referendum. The remaining 0.15 cent is dedicated to the Civic Center for payment of debt service.

Over the last 3 years, I have focused on structural improvements to the operations and financing of City government. We have addressed many areas that were previously neglected:

- **Major public and private investments** have made downtown an attractive place to live and work. The City has realized a positive return on its investment as indicated by the recent property revaluation.
- **Enhanced police protection**, through the addition of police officers and vehicles, and reorganization of the Police Department.
- **Abatement of blighted properties** by engaging our citizens actively in enhancing their neighborhoods through initiatives such as *ComNet*. Implementation of other crime reduction strategies, including an expedited demolition process to remove unsafe structures and enforcement of the Durham Minimum Housing Code, reduces blight and encourages safe and decent housing throughout the City.
- **Engagement of youth** through various initiatives including the Youth Council and the enhancement of programming in our recreation centers and parks.
- **Recruitment and retention of our workforce** has improved with the implementation of our Pay for Performance (P4P) and public safety pay plans, and a competitive benefits package.
- **More capital investment for improvements to streets, parks, facilities and other infrastructure.** Many projects are underway utilizing voter approved funding of \$110 million in General Obligation Bonds in 2005 and an additional \$20 million for streets and sidewalks in 2007. Engagement of program management services will enhance our ability to implement the Capital Improvement Program.
- **Ensuring a more transparent and accountable government** by delivering on our promises and responding to citizens through programs such as Results Based Accountability, Durham One Call (560-1200), Government TV (channel 8), an award-winning website and the Capital Improvement website (www.durhamnc.gov/cip).
- **Better vehicles and equipment** with the reinstatement of the Fleet Replacement Program. Our employees now have the equipment necessary to adequately provide services to our citizens, which also enhances employee morale. We are beginning to recognize a reduction in maintenance costs since many of our vehicles have been replaced over the last 3 years.
- **A focus on streamlining our processes, implementing best practices and planning for the future.** Our newly created Strategic Initiatives Division is continuously identifying opportunities to make our people and processes more efficient and effective. Over the last year the department

has been focused on development review and street maintenance. The department will coordinate the development of a city-wide strategic plan.

We have made considerable progress and the City should continue its investment in our community to ensure that all of Durham can realize opportunities to build a prosperous life. It is important that we:

- **Invest in our Neighborhoods** to attract private sector capital investment.
- **Invest in our Employees** to recruit, develop and retain the most qualified workforce available.
- **Invest in our Facilities** through funding annual maintenance and new capital projects to enhance and better serve our community.
- **Invest in our Public Safety operations** to ensure that our citizens feel safe in their homes and neighborhoods.

Financial constraints preclude including other initiatives that would enhance our ability to serve our citizens including:

- Funding to fully implement recommendations of the independent consultant's Pay/Classification Study for City employees.
- Additional funding for affordable housing projects.
- Funding to complete implementation of the citywide Comprehensive Solid Waste Program.

OVERALL BUDGET OUTLOOK

Improving public safety, enhancing delivery of core services, implementing our Capital Improvement Plan, and hiring and retaining exceptional employees throughout the organization are our highest priorities. To meet these expectations, the budget for **FY 2008-09 is \$355 million** and includes:

- A proposed **General Fund budget of \$215 million**, which funds core city services.
 - A 13.1% increase in property tax revenue as a result of the property revaluation.
 - A 6% decrease in sales tax revenues due to the new interlocal agreement with Durham County and economic uncertainty.
 - To balance the budget, we have set the tax rate at 54 cents per \$100 valuation. This tax rate also supports the increased debt service for previously approved capital projects.
 - A transfer of \$4.5 million from fund balance (savings) to balance the budget. We anticipate an 11% fund balance.
 - Increases in Planning Fees to address development review issues.

- A proposed **Water/Sewer Fund budget of \$74 million**, which adequately supports water/sewer operations and increased infrastructure debt service costs.
 - A new tiered water rate structure was approved by the Council on May 5, 2008. Increased water consumption and water and sewer service charges are effective with services provided July 1, 2008.
 - Water and Sewer Capital Improvement Program projects totaling \$63.2 million to improve infrastructure necessary to ensure adequate water and supply and wastewater treatment for our community.

Highlights of the FY 2008-09 Budget

ADDRESSING CRIME AND ITS ROOT CAUSES

Police, Fire and Emergency Communication. Crime continues to be the number one concern of most of our citizens. Feeling safe and lowering the crime rate are the two most important issues raised by the Council and Durham citizens. Our goal is to ensure that the Police Department, Fire Department and Emergency Communications Center (911) are staffed and properly equipped to protect our citizens. At the same time, we will support other efforts directed at eliminating the root causes of crime, such as revitalizing distressed neighborhoods and providing additional youth programs.

- The Police department continues to experience significant turnover and recruiting qualified officers is a challenge for the department. There are currently 42 vacancies in the department including 24 sworn officer vacancies. In lieu of committing additional officers to the department at this time, I am authorizing the department to “over-hire” up to 20 sworn officers after current vacancies are filled.
- Overtime funds are included in the budget to allow the Police Department to continue to provide targeted enforcement activities and address vacancy issues. Through the use of overtime, experienced officers can immediately be deployed to hot spots throughout the City to provide a consistent presence as needed and to address vacancy pressures.
- Funding for replacement ballistic vests is included to ensure the safety of the men and women who protect our community.
- Reserve funding for increased fuel costs has been set aside in the budget.
- A new station, Fire Station 15, in northern Durham, is funded in the Capital Improvement Plan. This budget includes funding to replace the Fire Station #2 Bell Tower.
- Competitive pay for our public safety employees remains an issue. Funding is included in this budget to implement the Pay/Classification Study conducted by an independent consultant. We will continue to offer educational and second language incentives that support improved service and professional development.

- Emergency Communications (911) will hire 1 communication training officer to accommodate the increase in personnel. These officers will provide specific oversight of the two main disciplines of Law Enforcement and Fire/EMS operations to improve productivity and response times, increase officer safety, and provide expanded coverage to the Durham community.
- To provide parity for emergency communication officers, funds are included to provide shift differential pay for those officers who work the “midnight shift”, in the same manner as is provided to other public safety employees. These employees experience some of the highest call volumes and are the most difficult to recruit and retain.
- Funding for uniforms for Emergency Communication employees is also included in this budget to align these employees with other public safety employees.
- The Capital Improvement Plan includes funding for the ongoing radio replacement program and for the microwave system upgrade which links the 800MHz radio system to the 911 center.
- Funding is also included to enhance the City’s Ex-Offender program. This program provides re-entry opportunities for recently released prisoners.

Housing Code Enforcement. Vacant and boarded properties continue to mark our community. Property values decline and crime increases in these neighborhoods. Our citizens demand and deserve attractive neighborhoods and stable property values. We have established a systematic approach to bring unsafe and deteriorating rental properties into compliance with the minimum housing code, and to eliminate vacant and boarded houses. A key focus has been on educating landlords and tenants of their rights and responsibilities to support the safety of our neighborhoods.

- The proposed Commercial Code will address issues with deteriorating commercial properties. We will begin implementation of this program in FY08-09.
- \$1 million is provided for special needs housing, the treatment of vacant and dilapidated housing, and code enforcement to augment services provided by our Neighborhood Improvement Services and Department of Community Development.
- Funding is included for the 10-year plan to end homelessness.

Youth Programs. Providing year-round positive activities for our youth is a priority. It is our goal to engage youth through our internal departments and support of local non-profits via the Non-City Agency Grant Program (NCA).

- City departments will continue to hire youth for summer jobs through the Mayor’s Summer Youth Works Program and encourage employees to volunteer as mentors or tutors to Durham children. It is vital to keep our youth involved in positive activities during the summer months.

- The Department of Parks & Recreation anticipates re-opening the “old” Lyon Park Neighborhood Center (renamed Youth Services Center at Lyon Park) and the Morreene Road Neighborhood Center. The Youth Services Center at Lyon Park will house Youth Services and the Office on Youth; the Morreene Road Center will house the Special Populations unit.
- The Walltown Recreation Center will be closed for reconstruction in FY 2008-09. Funding is in the budget to provide alternative locations to offer core programming for this community.
- The Holton Community Center is currently scheduled to open in August 2009. To prepare for the opening of this facility, it is imperative that we hire and train staff, purchase the supplies and equipment necessary to begin operations, and plan for the programs to be implemented by Durham Parks and Recreation. Funding is included in the budget for personnel and operating costs.
- The City is currently in negotiations to purchase the Trinity Center. The facility will provide a therapeutic recreation pool, gymnasium, and much needed office space for DPR staff. Space will be available to conduct clinics, camps, and other leagues and our special populations unit will be able to offer aquatic therapy programs. It will also serve as a site for “inclusion” training for volunteer coaches and staff.
- The Durham Fire Department will continue its Junior Fire Marshal Program and the Office of Economic & Workforce Development will maintain the Youth Employed and Succeeding (YES) program.
- Renovations to the Birchwood Community Center are scheduled to be completed in 2008. Funding for programming at the facility is included in the budget.

Targeting Distressed Neighborhoods. We continue to take a holistic approach to improve Durham’s most distressed neighborhoods by proposing:

- An additional \$175,000 for Neighborhood Revitalization to enhance the tax base, create jobs for Durham residents and reduce poverty and crime.
- An additional \$500,000 for Neighborhood Infrastructure Improvements/ Streetscape Funds for streetscape enhancements in targeted neighborhood commercial districts. This effort includes better lighting and a focus on aesthetics to attract private investment, reduce crime and enrich the tax base.
- Continuing to demolish unsafe houses, clean up weedy lots and remove abandoned vehicles from our neighborhoods.

MAINTAINING CORE SERVICES

Because Durham is a growing city, demands for core services from solid waste collection to building inspection are increasing. This growth requires additional resources to maintain basic service levels for programs such as sidewalks, transit, development review, construction of capital projects, and water, sewer and stormwater systems. At the same time, new and existing regulatory requirements must be met.

Development Review Process. One of my strategic initiatives this year has been to improve the development review process. To improve processing time the Planning Department will hire 5 additional staff members and reorganize the department structure. Planning and Public Works will also hire additional staff to better meet customer demands. All new staff is supported by fee increases effective January 1, 2009.

Downtown. We have made major investments in downtown over the last few years. The City is working closely with Downtown Durham, Inc. (DDI), local businesses, and other community partners to develop and implement programs for the new CCB Plaza. Our goal is to provide a full schedule of events at this central hub of downtown between the months of April and October of each year. We are currently embarking on a crucial sponsorship campaign to raise additional funds necessary to accomplish this goal. In an effort to address conversion of the downtown loop to two-way traffic, funding is included for a feasibility assessment and recommendations on how best to proceed with this project.

Solid Waste, Yard Waste and Bulky-Item Programs. Our current solid waste and recycling collection services will be maintained, meeting service needs of our growing population. The budget includes funding to complete implementation of the bulky item pickup initiative. Bulky items will be collected on the same day as garbage and recycling, free of charge. The FY 2007-08 budget provided funding for the equipment needed to implement this program; the FY 2008-09 budget will fund 3 additional employees and operating costs. In addition, to augment the revitalization of our neighborhoods, the Solid Waste Department will offer the use of stationary roll-off containers for businesses and citizens completing revitalization projects. Homeowners undertaking renovation projects can receive a reduced rate for roll-off containers.

Streets and Sidewalks. Using 2005 and 2007 General Obligation Bonds (GO) and other funds, we will continue to resurface many deteriorating streets and pave dirt streets throughout the City. In 2008, the department was responsible for maintaining 659 miles of City-owned streets and maintained 141 miles of state-owned streets by municipal agreement. A bond referendum will be needed in November 2009 to fund additional improvements and \$5 million annually to maintain our streets after 2009.

Protecting our Environment. An enhanced focus on sustainability to reduce energy consumption and greenhouse gas emissions.

- Funding the Fleet Replacement program is one of the best ways to support this goal. All new vehicles are low emission or ultra-low emission. EPA data show that new diesel engines reduce emissions by 90%, a major reduction in nitrogen oxides and particulate matter.

- DATA is awaiting delivery of 5 hybrid buses approved in last year's budget. Funding is also provided in the budget for debt service for 15 additional hybrid buses.
- This budget also includes continued funding to support the recently hired City/County Sustainability Officer.

Water and Sewer System. Rate increases for water and sewer charges were adopted in May for FY2008-09. For residential customers, water is billed at an increasing tiered rate intended to promote conservation. Non-residential customers will be billed for water consumption at the third or middle tier rate. This rate increase is projected to equate to the following change for a residential customer:

Billing Period	8 CCF Monthly Use	2 CCF Monthly Use	12 CCF Monthly Use
Bi-Monthly Increase	\$14.76	\$10.74	\$22.92
Monthly Increase	\$7.38	\$5.37	\$11.46
Annual Increase	\$88.56	\$64.50	\$137.52

The rate model utilized for the projection includes future rate increases based on growth in operating expenses. The rate model also assumes full funding of the proposed CIP by utilization of Revenue Bonds and/or General Obligation Bond issues.

Durham Area Transit Authority (DATA). The budget maintains current service levels by supporting rising fuel and other operating costs, and adds a downtown circulator route late in the year to serve the new Durham Station. Unfortunately, other new routes or expansions in service to existing routes go unmet. Funding is provided to purchase 15 new buses for existing routes.

Fleet. The City established a Fleet Replacement Fund in FY 2006-07 to provide a systematic approach to replacing vehicles while spreading the costs over the life of the fleet. Certificates of Participation will be used to replace \$8.9 million of vehicles determined to be well beyond their recognized useful life. This substantial outlay will allow timelier replacements and substantially reduce the lost productivity and high maintenance costs associated with servicing older vehicles. With the creation of a separate Fleet Management Department, the City has focused on cost-saving measures including the disposal or reassignment of 19 underutilized vehicles. The improvement of our fleet has enhanced service delivery and employee morale. Several departments requested a van to be used for employees when traveling to training locations. This budget includes one van to be managed by Fleet Management as a pool vehicle which can be reserved by departments. This is more efficient than purchasing departmental vans or paying multiple employees mileage to drive to the same location.

City Workforce. Because our employees are at the core of City services, attracting and retaining a competent, high quality workforce is essential. The continuation of the City's "Pay for Performance" plan recognizes the need to compensate our employees for their achievements.

- The Pay for Performance plan has been implemented throughout the City's general employee population. The next performance-based pay increase will be awarded January 1, 2009. Under this plan, exceptional employees may receive up to a 4.5% pay increase; though on average, employees will get a 3.52% raise. Poor performers, and in some cases their supervisors, will generally not be rewarded at all, and will be placed in a performance improvement plan.
- The police and fire pay plans will be maintained to ensure we are able to retain our qualified public safety personnel.
- Last year's budget included funding for a comprehensive compensation and classification study to ensure that our pay plan is market competitive. This neutral, data-driven review of our system was last conducted in 1996. The latest study was conducted by the Waters Consulting Group and \$3.5 million is included in the FY 2008-09 budget to implement the recommendations of the study over a two-year period. Departmental budgets (over 25 FTEs) were reduced by 1% to partially absorb this cost.
- We will continue to provide targeted recruitment efforts and participate in job fairs to reach out to a diverse, well-qualified employment pool.
- The longevity program, employee 401(k), and retirement benefits will remain unchanged.
- Employer-paid health insurance premiums are expected to increase by approximately 7.6% effective September 2008, and the employee share will increase proportionately. We also anticipate a 5% increase in dental health costs and a 5% increase in mental health costs. These increases are lower than anticipated due to the staff's aggressive negotiations with our vendors. We are also including funding to expand our wellness programs to help improve the well-being of our workforce and control our health care costs through improved claims experience.
- We have created a new trust fund to begin accumulating money for our future liability related to Other Post Employee Benefits (OPEB), as recommended by the Government Accounting Standards Board.
- We have assumed, based on data from prior years, that there will be vacancies and turnover in the organization and have recognized a total savings of approximately \$2.9 million as a result.
- To maintain and improve our basic services, our workforce is increased by 61 full time positions; half of which are fee-funded with many others addressing prior commitments due to new facilities or programs. Although the City continues to grow and expand services, the total number of employees per capita has remained relatively flat for the last several years.

Fiscal Accountability. The City continues to maintain its excellent fiscal status as evidenced in three areas:

- A continuing AAA bond rating by all three rating agencies, the highest measure of financial security and one attained by only 19 of the nation's more than 22,500 cities;
- Unqualified opinions by independent auditors of the City's financial statements and compliance with major federal and state grants; and
- A strong Audit Services Department, ensuring compliance with applicable laws, policies and procedures.

In addition to conducting audits based on risk, the Audit Services Department operates a "fraud, waste and abuse" hotline.

Performance Improvement Efforts. To reduce operating costs and improve services to the public, several enhancements to government operations will continue in the upcoming fiscal year:

- The Budget & Management Services Department, City Manager's Strategic Initiatives Division and other city employees will focus on improving performance throughout City government.
- The Audit Services Department will continue to conduct financial and compliance audits, and will expand the number of performance audits conducted in the next year.
- The utility and general billing components of our Enterprise Resource Planning (ERP) System will be fully implemented in FY 2008-09, upgrading our information technology and providing increase management decision support.
- An informed and active citizenry is important to local government operations. Over the next fiscal year, the City will improve its outreach and educational efforts through a major programming effort for Government TV. We have included funding for an additional Public Affairs Specialist to assist in these efforts.
- Durham*First* is the City's initiative to reshape Durham's government into a high performing organization by identifying ways to improve operations, policies and procedures through employee task teams, and by training and developing our next generation of leaders.

Non-Profit Support. The budget proposes to fund 36 non-profit or Non-City Agencies (NCAs) to provide arts, public safety, youth, community development programs and other activities for Durham citizens at a total cost of \$825,856. The City also has a management agreement with the Carolina Theatre and Durham Arts Council for \$576,171 and \$581,000 respectively which has removed these organizations from the NCA process. The budget also includes \$100,000 for the Cultural Master plan.

IMPLEMENTING THE CAPITAL IMPROVEMENT PROGRAM

The FY 2009-14 Capital Improvement Program (CIP) is presented to the City Council in a companion document to the FY 2008-09 annual budget. The capital improvement budget includes \$91.2 million for new projects and complete existing projects. Funding is provided through impact fees, grants, water and sewer revenues and revenue bonds, stormwater fees, general obligation bonds, certificates of participation (COPs), and general fund revenues.

We developed a comprehensive CIP through 2014 by obtaining a professional analysis of projects and seeking the guidance of citizens, business and community leaders and City Council. The staff CIP Advisory Committee and the Citizen Capital Improvement Panel (CCIP) have provided recommendations that were included as part of the CIP deliberations by the City Council. These committees were formed 5 years ago to prioritize the best combination of new capital improvement projects and advise the City Council of the most critical CIP projects to meet the City's ongoing needs. Additionally, the City Council appointed a 9 member citizen committee, the Capital Program Advisory Committee (CPAC), to provide oversight of bond project delivery.

In November 2005, voters overwhelmingly granted approval for the City to issue \$110 million in General Obligation bonds for long needed street, water and sewer, parks and recreation, public facilities and other improvements throughout the City. In November 2007, the voters approved an additional \$20 million in General Obligation Bonds for streets and sidewalks. The primary focus of the FY 2009-14 Capital Improvement Program is to complete existing projects already approved and underway. We are committed to providing complete and ongoing communications to citizens and the City Council about the progress of all projects. To monitor the status of any capital project, citizens can visit our website at (<http://www.durhamnc.gov/cip>).

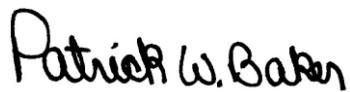
We continue to face challenges in implementing the 2005 Bond projects. The workload created for project managers is not manageable at current staffing levels. Because the increased workload is temporary, the City is evaluating the use of additional contracted program management services. This will provide capacity to manage more projects simultaneously and will allow for the contract to be adjusted as projects are finished and the workload is lessened. Program management services will help finish the projects earlier which equates to a significant savings for the City. This is of particular interest during this period of unprecedented rising construction costs. If it is decided to obtain additional program management services, supplemental funding will be needed.

During the Bond campaign in 2005 and 2007, voters were informed of a possible tax increase to pay debt service on bonds issued for projects. The budget includes funding to pay debt service for the 2005 and 2007 bonds.

I am confident this budget allocates our resources to the highest priorities and is a responsible spending plan designed to deliver quality services at a reasonable cost. We have made much progress over the last three years and I look forward to

continuing to support the City in meeting our goals of enhanced safety for our citizens, maintaining our core services and implementing our capital improvement plan in my new role as the City Attorney. I believe that I have left the organization and the community stronger than they were when I first assumed the role of City Manager. I appreciate the opportunity to serve as the City Manager of the City of Durham. I want to take this opportunity to thank the City Council for your continued support as we have travelled on this journey together to make Durham a better place. I also want to thank all city employees for their dedication and commitment to Durham, and for demonstrating to me every day their passion for this community and for public service.

Respectfully Submitted,

A handwritten signature in black ink that reads "Patrick W. Baker". The signature is written in a cursive, slightly stylized font.

Patrick W. Baker
City Manager